
When a Western economist starts to think seriously about countries trying to reorient their economies away from socialism toward capitalism, an unfortunate fact becomes painfully evident. Over 21/2 centuries since the 1776 publication of Adam Smith's *Wealth of Nations*, we still do not understand why some economies work and some economies fail.

We do understand some things. We know what a healthy market economy looks like - relative prices determined in competitive markets, a large free trade zone, decentralized decision making, well-defined and effectively-enforced private property rights, limited regulation, and effective stabilization policies. We know that lacking these reforms an economy will perform poorly. An obvious question is if what we need to do is so obvious, then why don't we do it?

In the aftermath of the collapse of the Soviet system, some of the world's best economists tried to guide new states toward these reforms. They failed. They knew what to do, but the countries in need of reform chopped up and spit out their ideas like a wood chipper. Why? Perhaps the following paradox explains it. Installing market reforms into a former socialist state, the act of creating capitalism, is a public good - losers of each reform are concentrated, powerful and well organized whereas winners are diffuse, weak, and disorganized. Furthermore, the costs to the losers are immediate and the benefits to the winners long term. To create capitalism central authorities must pro-actively destroy their own power in order to replace a centralized system with a competitive market system. It is all too easy for a small minority of entrenched interests to block reforms even if the reforms are welfare enhancing.

Now, what has this to do with von Hirschhausen's book on modernizing infrastructure in transformation economies? Well, the most important question raised by reading von Hirschhausen, though it is not clear he realizes this, is: Why do some economies work while others fail? I for one could not avoid coming to this conclusion after reading this book.

The author, a well-trained, seasoned, and knowledgeable German economist, has worked and actively researched infrastructure modernization in the former Soviet bloc - both Central Europe and the Confederation of Independent States (CIS). He is well versed in the contemporary theoretical literature on infrastructure investment. He knows first hand the efforts to integrate Eastern Germany into Western Germany. He knows details about an impressive array of infrastructure projects in countries ranging from The Czech Republic to Turkmenistan and from Estonia to Slovenia. He can cite specific examples of infrastructure experiments from as far away as California. He is obviously an expert in natural gas regulation and analysis. He is interested in seeing progress in former socialist societies lead them to integration into the European Union (EU).

In this book he unites theoretical analysis with first-hand knowledge and practical experience to assess infrastructure policy in a very disparate array of countries – Russia, Latvia, Poland, Uzbekistan and so on. If one wants to know about the range of at-
tempts at financing, building, modernizing and designing new infrastructure, this book is invaluable. Its author has "been there and done that." The book is readable by a general audience and not just trained economists in the infrastructure field. He uses models sparingly. For instance, in chapter 4, which ends the theoretical half of the book, he reports on a theoretical analysis by Thimann and Thum (1999) on investment under uncertainty to show impediments to private financing of infrastructure investments in transformation economies. This modeling is an exception though. Von Hirschhausen describes his approach as institutionalist. Although it is unclear to me whether this means anything more than recognizing that abstract models need to be supplemented with local facts in order actually to implement infrastructure modernization.

Von Hirschhausen's approach is to end theoretical discussions with lists – of observations, conclusions, or of plusses and minuses. The difficulty here is lists do not give the reader a sense of the relative importance of ideas. Furthermore, one often does not feel intellectual progress is being made with these models. I was often not sure what conclusions the author was expecting me to draw from various theories. Theories seem to be introduced, discussed and discarded with little sense of a clear line of progress. It is fine to be academic and dispassionate, but von Hirschhausen seems to hedge a bit too much by taking both sides of some issues.

In the empirical work von Hirschhausen is much more decisive. Here he draws quite discouraging conclusions about modernization of infrastructure in the former Soviet bloc. To give just two examples, in chapter 6 after analyzing four years of public investment programs (PIP) in the three Baltic Countries, he concludes, "... efficient infrastructure investment policies are more easily 'planned' than actually carried out." (p. 120) In chapter 10 dealing with gas sector restructuring in four CIS countries, Russia, Turkmenistan, Ukraine and Uzbekistan from 1985 to 2001, he notes that "Vertically integrated monopolies still dominate the gas industry." (p. 199) His conclusion? "$... ten years of 'reform' have in general been deceptive ... in reality, monopolistic and opaque industry structures dominate." (p. 200)

When von Hirschhausen says a wide variety of attempts at privatizing highway infrastructure throughout central Europe have not worked and that reforms of gas production and delivery in Russia have failed, you can count on it. This is invaluable because he guides future planners away from some cul-de-sacs in which they could waste time and resources. He can also explain in detail why a variety of creative approaches to finance and organize infrastructure projects have failed. He goes on to provide positive and constructive suggestions for doing better in the future.

And yet, I am left a little disappointed, as I suspect von Hirschhausen himself may be. So many failures and almost no successes followed by pretty tepid suggestions for improvements – like more transparency in Russian gas exploration policy – leave one wondering: What's to be done? Or, as put earlier: Why do some economies succeed while others fail?

I would like to make a radical assertion: None of the innumerable failures to modernize infrastructure reflects the financial system, the organization of the production process, the degree of privatization or government regulation and involvement. Technical details are not the problem. Something much more fundamental keeps cropping